



**COMMONWEALTH OF PUERTO RICO**

Basic Financial Statements

and Required Supplementary Information

June 30, 2013

(With Independent Auditors' Report Thereon)

# ***BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION***

***Fiscal Year Ended June 30, 2013***



***Commonwealth of Puerto Rico***

***Honorable Alejandro García Padilla  
Governor***

***Prepared by:***

***Puerto Rico Department of the Treasury***

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Secretary of the Treasury***

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***Under Secretary of the Treasury***

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## **Independent Auditors' Report**

The Honorable Governor and Legislature  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following entities, funds and activities:

#### ***Governmental Activities***

- Puerto Rico Public Housing Administration, which represents 25.65% and 2.47% of the total assets and revenues, respectively, of the General Fund.
- Office for the Administration of the Sales and Acquisition Fund of the Puerto Rico Department of Housing, which represents 0.60% and 0.00% of the total assets and revenues, respectively, of the General Fund.
- Office for the Improvements of Public Schools, which represents 0.90% and 0.00% of the total assets and revenues, respectively, of the General Fund.
- Labor Development Administration, which represents 0.33% and 0.45% of the total assets and revenues, respectively, of the General Fund.
- Public Buildings Authority special revenue, debt service, and capital projects funds, which are nonmajor governmental funds that collectively represent 7.54% and 2.67% of the total assets and revenues, respectively, of the aggregate remaining fund information.



*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6 through 20, the schedules of funding progress on pages 243 and 244, the schedule of employer contributions on page 245, and the schedule of revenues and expenditures –budget and actual– budgetary basis - General Fund on page 246, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

June 30, 2014

Stamp No. E125980 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

## COMMONWEALTH OF PUERTO RICO

### Management's Discussion and Analysis (Unaudited)

June 30, 2013

The Commonwealth's investment in capital assets for its governmental and business type activities as of June 30, 2013 amounted to approximately \$12.5 billion, less accumulated depreciation and amortization of \$4.2 billion, leaving a book value of \$8.3 billion. This investment in capital assets includes land, construction in progress, buildings, building improvements and equipment as infrastructure.

The net book value of capital assets at June 30, 2013 is distributed by function/activity in the following proportions: general government, 45%; public safety, 6%; health, 2%; public housing and welfare, 30%; education, 4%; and economic development, 13%. Capital outlays were approximately \$519 million for the fiscal year. Depreciation and amortization charges for the fiscal year totaled \$336 million.

The fiscal year 2013 capital asset highlights include transactions from blended component units such as Public Buildings Administration transfers from construction in progress to buildings and building improvements in the amount of approximately \$644 million and the Department of Transportation and Public Works additions of approximately \$64 million.

The infrastructure assets representing items that are normally immovable and of value only to the Commonwealth, such as roads, highways, bridges, toll facilities, water and sewer systems, lighting production, transmission and distribution systems, and similar items, are principally owned by the component units of the Commonwealth. Therefore, the infrastructure assets are reported within depreciable capital assets under the discretely presented component units' column. Additional information on the Commonwealth's capital assets can be found in note 10 to the basic financial statements that accompany this report.

#### ***Debt Administration***

Long-term obligations of the governmental activities as of June 30, 2013 were approximately \$56.9 billion, of which \$2.4 billion are due within one year. Long-term obligations of the governmental activities increased by approximately \$3.2 billion, or 6%, when compared to the prior fiscal year.

General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth's power to levy additional taxes to help ensure repayment of the debt.

The Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the treasury (internal revenues) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. At June 30, 2013, the Commonwealth is in compliance with the debt limitation requirement.

The Commonwealth's policy has been and continues to be to prudently manage such debt within the constitutional limitation. Debt of municipalities, other than bond anticipation notes, is supported by real and personal property taxes, municipal license taxes, and the corresponding part of the sales and use tax. Debt of public corporations, other than bond anticipation notes, is generally supported by the revenues of such corporations from rates charged for services or products. However, certain debt of public corporations is

## COMMONWEALTH OF PUERTO RICO

### Management's Discussion and Analysis (Unaudited)

June 30, 2013

supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

Internal revenues consist principally of income taxes, property taxes, sales and use taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Department of the Treasury of the Commonwealth and motor vehicle fuel taxes and license fees, which are allocated to the Puerto Rico Highways and Transportation Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of the sales and use tax allocated to COFINA is not included as internal revenues since the legislation that created COFINA transferred ownership of such portion of the sales and use tax to COFINA and provided that such portion was not available resources under the Constitutional provisions relating to full faith and credit bonds.

Long-term obligations of the business-type activities decreased by approximately \$10.8 million, or 2% due primarily to the decrease in the obligation for unpaid lottery prices.

Additional information on the Commonwealth's long term debt can be found in note 12 to the basic financial statements that accompany this report.

#### General Fund Budgetary Highlights

The Commonwealth adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided as required supplementary information for the General Fund to demonstrate compliance with this budget. The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund only presents the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP. See the notes to required supplementary information for a reconciliation of the schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund with the statement of revenues, expenditures, and changes in fund balance (deficit) for the General Fund.

Total General Fund actual revenues on a budget basis (sources) for fiscal year 2013 were \$8.1 billion, (excluding other financing sources) representing a decrease of approximately \$511 million, or 6%, from original budgeted revenues and a decrease of approximately \$442 million from actual revenues of \$8.6 billion for fiscal year 2012.

Total actual expenditures on a budget basis of approximately \$8.9 billion represented a decrease of \$973 million from actual expenditures of \$9.9 billion for fiscal year 2012.

For fiscal year 2013, the actual budgetary deficit in the General Fund was \$807 million, consisting of the difference between total actual revenues of approximately \$8.1 billion and total actual expenditures for such fiscal year of \$8.9 billion. For fiscal year 2012, the deficit was \$1.3 billion, consisting of the difference between total actual revenues of approximately \$8.6 billion and total actual expenditures for such fiscal year of approximately \$9.9 billion. The deficits for fiscal year 2013 decreased by approximately \$531 million or 38.5% when compared to 2012 and decreased by approximately \$275 million or 25% when compared to the deficit of approximately \$1.1 billion in 2011. The Government's ability to continue reducing the deficit will depend in part on its ability to continue increasing revenues and reducing expenditures, which in turn depends on a number of factors, including improvements in general economic conditions.

The following information is presented to assist the reader in comparing the final amended budget and the actual results.